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GAMBLES

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1969 ANNUAL REPORT

FISCAL YEAR ENDED JANUARY 31, 1970

GAMBLE-SKOGMO, INC.



GAMBLES

Gamble-Skogmo, Inc. Annual Report 1969

GAMBLES OUTLETS

January 31, 1970

Company-owned Stores	802
Company-owned Catalog Offices	86
Authorized Dealers	3,255
Total Outlets	4,143

In the last five years, the total number of retail outlets has increased from 3,646 to 4,143. Net sales in the same period have increased from \$562 million to over \$1.25 billion. Gambles operates in 38 states in the U.S.A. and in all provinces in Canada as follows:

IN THE U.S.A.

Gamble Company-owned and Franchised Tempo Stores
Skogmo Franchised Stores
Model O Day Company-owned and Franchised
Red Owl Company-owned and Franchised
Snyder Company-owned and Franchised
McDonalds Department Stores
Aldens Catalog and Telephone Sales Offices
Gamble Department Stores
Eisen Company-owned and Franchised
Rasco Company-owned and Franchised
Cussins & Faam Stores and Buckeye Marts

IN CANADA

Macleods Company-owned and Franchised
Marshall Wells Company-owned and Franchised
Clark's-Gamble Stores
Stedmans Company-owned and Franchised

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Transfer Agent

First National City Bank
111 Wall Street
New York, New York 10015

Registrar

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York 10015

Financial Highlights

	Fifty-three weeks ended January 31, 1970	Fifty-two weeks ended January 25, 1969
Sales (Including Leased Departments)	\$1,257,580,000	\$1,143,741,000
Net Sales (Excluding Leased Departments)	1,242,294,000	1,129,902,000
Earnings before Income Taxes and Minority Interests	27,779,000	28,379,000
Provision for Income Taxes	13,873,000	14,422,000
Minority Interests	700,000	784,000
Net Earnings	13,206,000	13,173,000
Per Common Share Including Common Equivalent	2.66	2.81
Cash Dividends (Including Preferred)	8,062,000	7,612,000
Per Share of Common Stock	1.30	1.30
Stockholders' Equity	186,466,000	175,753,000



JAMES A. WATSON
President
(Standing)

BERTIN C. GAMBLE
Chairman of the Board
(Seated)

To our Stockholders:

Merchandising today is not essentially a science nor is it entirely an art. It is indeed a combination of both and as such is highly sensitive to the vagaries of a variety of factors — changing markets, the general economy and the buying public.

Anticipating and keeping pace with such changes requires professional management people with maturity and experience together with the intense application of their intuitive resources and imagination. Gambles has recognized the need for flexibility and has consolidated its primary strengths and moved aggressively toward accomplishing a number of its established objectives.

The company's momentum of progress continued with the following significant achievements during the past year:

- Sales for the fiscal year increased 9.9 percent (53 weeks versus 52 weeks a year ago), or 8 percent on a fully comparable basis.
- Dollar earnings, despite the adverse effect of inflationary conditions, including extremely high interest charges, were slightly higher than last year.
- The company's financial position was further strengthened.
- Expansion and modernization of facilities continued in order that the company can meet the growing demand for its goods and services.
- Formation of a new executive team composed of highly experienced and qualified management members was completed.
- With the aid of McKinsey & Company, a consulting firm, management has devoted a great deal of time and serious study

towards producing increased margins and lower administrative and operating costs. Such studies should have a profound effect on all profit centers and at all levels of management, and have resulted in the development of a five-year plan of growth.

We are pleased to report a new high sales level of \$1,257,580,000 compared with \$1,143,741,000 last year. It was especially gratifying to note that all major segments of operations reported gains in volume, including sales to franchised dealers.

Consolidated net earnings for the year amounted to \$13,206,000, equal to \$2.66 per share against \$13,173,000, or \$2.81 a year ago, computed on the common equivalent method. Higher costs, which could not be passed on to consumers through price increases, had a substantial effect on the year's outcome. The decline in earnings per share was due to an increased number of shares issued to augment the capital base.

In order to provide for added expansion and a healthy growth, the financial position was further strengthened by continuing the sale of capital notes, the issuance of common shares as a result of acquisitions, and earnings retained in the business.

A number of existing retail outlets were upgraded and remodeled where deemed advisable and 15 new units were opened during the year.

The company's growth and development also included the acquisition of two department stores operated by The Paris Co. in Salt Lake City, and Robertson Brothers, the dominant department store in South Bend, Indiana.

The program of converting company-owned stores to franchised operations, particularly in the Gamble and Canadian divisions, proceeded in accordance with goals established earlier. During the fiscal year 91 company stores were shifted to individual ownership under franchise agreements, and 188 new franchised outlets were opened by all divisions. The franchised portion of our activities offers a very favorable return on the company's invested capital.

Gambles Leasing, Inc. was organized in May, and shortly thereafter acquired the C & M Leasing Company, headquartered in Minneapolis. This subsidiary currently administers leases covering more than two thousand auto-

mobiles and trucks, primarily on a fleet basis.

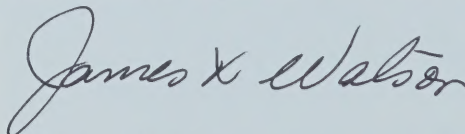
The company's operations are widely dispersed geographically and offer the variety of products and services compatible with today's demographic pattern. Gambles buyers must choose standards of quality and fashion to please all ages with particular emphasis on the faster growing segments of the population. Statisticians forecast that the population in the 14 to 24 age bracket will increase 62 percent by 1975. Also, there will be a greater number of people over 65 than ever before. These two groups will constitute a large number of our customers. The company is prepared through its mass merchandising and diversified operations to provide a high percentage of the wants and needs of all consumer age groups.

The great emphasis now being placed by management on immediate profit improvement will provide a solid base for the future. Equally important, however, we are further defining the directions that our future growth will take. Only in this way can we be assured that as our earnings increase we will be in a position to take full advantage of the potential opportunities facing the company.

While the company has continued a growth pattern, management is also keenly aware of the urgency of improving earnings. To this end our entire staff is dedicating its efforts. The continued loyalty and cooperation of our employees, suppliers, franchised associates and shareholders should result in fulfilling our coming year's objectives.



BERTIN C. GAMBLE, Chairman of the Board



JAMES A. WATSON, President

April 10, 1970

Review of the Year...

Sales reach new level of \$1¼ billion ...
Earnings slightly higher than a year ago ...
Financial position further strengthened ...

Sales

Consolidated sales for the 53 weeks ended January 31, 1970 amounted to \$1,257,580,000, an increase of 9.9 percent over sales of \$1,143,741,000 last year. On a comparable basis, sales for the first 52 weeks of the year were up 8 percent. Of the total sales, approximately 76 percent, including mail order, were at retail while the remaining 24 percent were at wholesale to franchised operators.

Earnings

Net earnings after taxes amounted to \$13,206,000 against \$13,173,000 a year ago and were again materially affected by rising costs in an inflationary economy. Earnings per common share, including common equivalents, were \$2.66 compared with \$2.81 last year. Common equivalents reflect the exercise of dilutive stock options and warrants computed under the treasury stock method. Interest expense to finance instalment receivables is a major factor in the company's operations. This, together with other increased interest cost of borrowings, penalized per share earnings 74 cents.

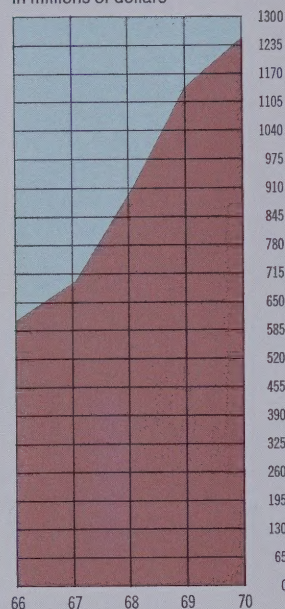
In a concentrated effort to improve profit margins and reduce costs of operations, a consulting firm was engaged during the year to work directly with the President of the company. Many areas of betterment have already developed and should be of inestimable value in the future. In addition to the initial analysis and assistance furnished by the counsellors, a home office team has been set up to assure a continuing profit improvement program.

Dividends

Four quarterly cash dividends of 32½ cents per share were paid to common stockholders on April 30, 1969, July 31, 1969, October 31, 1969 and January 31, 1970.

On the same dates, regular quarterly dividends of 43¾ cents a share were paid on the

Net Sales*
in millions of dollars



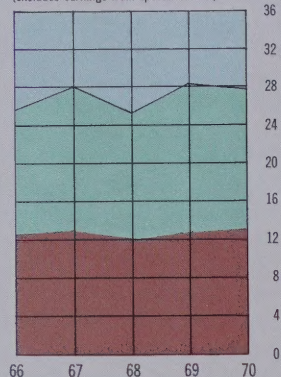
*(Excluding leased departments)

Before Taxes and Minority Interests
After Taxes and Minority Interests

Earnings

in millions of dollars

(excludes earnings from special credits)



\$1.75 Cumulative Preferred Stock as well as 40 cents a share on the \$1.60 Cumulative Preferred Stock.

On April 6, 1970, a regular quarterly dividend of 32½ cents was declared payable on each share of common stock outstanding, 43¾ cents on the \$1.75 Cumulative Preferred Stock and 40 cents on the \$1.60 Cumulative Preferred Stock. All of the foregoing are payable on April 30 to holders of record on April 17.

Of significance is the fact that the company has paid dividends in each year since incorporation in 1928.

A program announced last year, which is restated for the benefit of new shareholders, provides that First National City Bank, 111 Wall Street, New York, the company's dividend disbursing agent, will automatically reinvest dividends in added shares of Gambles common stock upon request of the shareholder. The number of shareholders who have availed themselves of this opportunity has exceeded earlier expectations. Further details can be secured from the foregoing financial institution.

Financial Data

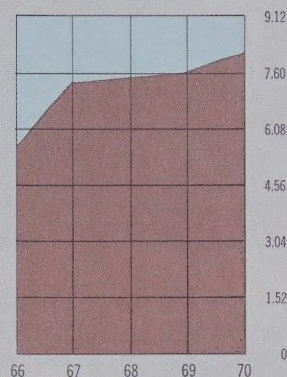
At year end, consolidated net working capital amounted to \$328,426,000, versus \$315,723,000 a year earlier. Current assets were \$548,868,000 or 2.49 times the current liabilities of \$220,442,000.

The \$60 million revolving credit agreement previously entered into has been extended to April 15, 1972. Revolving credit agreements amounting to \$80 million are convertible into three and five year term loans at expiration dates. The company's financial position has been considerably strengthened over the past three-year period by marketing subordinated income and capital notes amounting to \$68 million. In addition, stockholders' equity increased about \$35 million in these same three years.

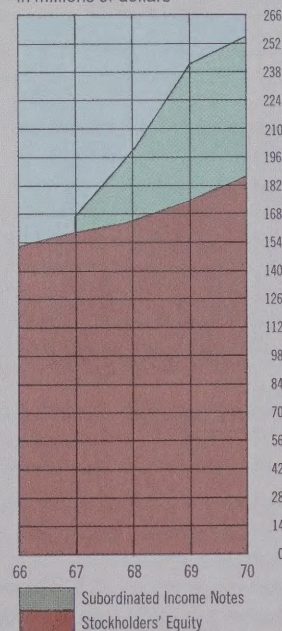
Directors and officers elected . . . Formation of new corporate and divisional management teams announced . . .

Upon retirement of Carl C. Raugust, President of the company since 1963, the Board of Directors elected James A. Watson as his successor. Mr. Watson had been President of Red Owl and continues to serve as its Chairman of the

Dividends Paid
in millions of dollars



Capital Funds
in millions of dollars



Executive Committee



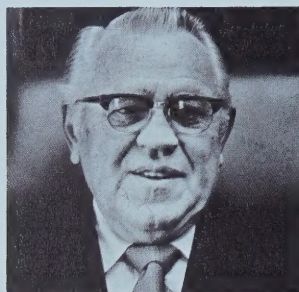
B. C. Gamble
Chairman of the Board



J. A. Watson
President



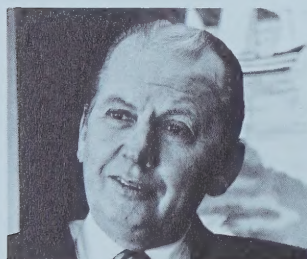
W. H. Davies, Jr.
Vice Chairman of the
Board and Treasurer



C. C. Raugust
Chairman of Executive
Committee
(Retired President)



L. E. Dolan
Vice Chairman of the
Board and Secretary



A. G. Johnson
Executive Vice President
for Buying and Merchandising



F. R. Lombaer
Senior Vice President
for Personnel



E. O. Wack
Senior Vice President
for Franchising

Board. Red Owl is a leading food and drug chain in the upper midwest and is a subsidiary of Gamble-Skogmo, Inc.

At the same meeting, L. E. Dolan and W. H. Davies, Jr. were elevated to the post of Vice Chairman, newly-created executive positions.

Other promotions consisted of F. R. Lombaer being named Senior Vice President for

Personnel; E. O. Wack, Senior Vice President for Franchising; L. W. Rixe, Senior Vice President and Controller, and J. E. Gottlieb, Senior Vice President for Real Estate. In addition, L. Kanter, who joined the company early in the year, was elected Vice President for Department Stores.



A group of store manager trainees receive instructions on the proper usage of corporate staff service functions.

Newly elected to the Board of Directors in June were F. R. Lombaer, E. O. Wack, James A. Watson and Carle R. Wunderlich, President of Aldens, Inc., a subsidiary of Gambles. Management expresses its appreciation to Messrs. R. W. Jackson, who retired in 1969, and A. D. Walker and H. W. Zinsmaster who ably served for many years on the Board of Directors and did not stand for reelection at the last annual meeting of shareholders.

The past year saw the formation of a new Executive Committee composed of key management persons who represent all facets of the company's affairs. This committee acts on overall policy matters on behalf of the Board of Directors between regular meetings of the board.

Mr. M. E. Davis was recently appointed General Manager of the Cussins & Fearn Division, operators of Buckeye Marts.

Mr. J. H. Wille was elected President of Red Owl Stores, Inc., the company's food and drug chain subsidiary, replacing Mr. Watson last June.

A revitalization of the management in the Canadian divisions occurred during the past year with various executive changes. R. B. Sutherland became the President and Chief Executive Officer of Gambles Canada Limited (formerly Gamble Macleod Limited) succeeding Arnold G. Kirkness who reached retirement age. Mr. Sutherland was previously President of Marshall Wells Limited. S. J. Coppinger was appointed Executive Vice President and Chief Operating Officer of Marshall Wells Limited. A. W. K. Besant, who had been Vice President of Gambles Canada

Limited and General Manager of Clark's-Gamble of Canada Limited, was named Executive Vice President and Chief Operating Officer of Gambles Canada Limited. Mr. Besant joined the company in 1969 with a broad merchandising background principally with Hudson's Bay Company. Immediately prior to affiliating with Gambles, he was Vice President of Merchandise for Towers Discount Department Stores, a chain of 28 stores in Canada.

Coincidentally, William G. Spalding, who joined the company early in 1969, was named General Manager of Clark's-Gamble of Canada Limited. Mr. Spalding had been with Hudson's Bay Company for eighteen years and two years with A. J. Freiman Limited before joining the organization. Philip C. Fikkan, formerly Vice President of Gambles Canada Limited, was appointed President of the Macleods Division succeeding B. F. Rutherford upon his retirement. Emerson J. McCready was recently engaged as the Executive Vice President and Chief Operating Officer of the Stedmans Division. Mr. McCready came to the company with 23 years of merchandising experience, most of which was with T. Eaton Co. Ltd. in Canada.

Franchising offers many opportunities for the company and dealers . . . Rasco Stores Division franchises four Tempo Stores . . .

Gambles now offers the widest variety of franchises for individual owner-operators in this country. RASCO variety stores, MODE O'DAY dress shops, RED OWL food stores, GAMBLES general merchandise, TEMPO mass merchandising stores, SKOGMO softlines, EISEN'S "House of Fabrics" shops, and recently SNYDER drug stores, all are now available to pro-

spective franchisees. Late in the year Snyder opened its first franchised drug store in Hastings, Minnesota. The results thus far have prompted management to plan three more such units in the near future.

Gambles now services 2,609 franchised outlets in the United States and 646 in Canada. In addition to affording an individual the opportunity of being in business for himself, the company earns a good return on the investment required to service its dealers. The story of a typical dealer would be something like the one pictured in this report.

In addition to furnishing merchandising and sales promotion assistance, Gambles holds periodic shows throughout the year for both dealer and company-owned stores. These meetings are designed to keep operators and managers up-to-the-minute on new products and merchandising techniques.

Rasco Stores Division, though it has been in mass merchandising before, has recently taken over the administration and supervision of four Tempo stores on a franchise basis. These are located in the geographic area where it appears they can be more ably and efficiently serviced by the Rasco Division.

Canadian operations establish new high sales . . . Major emphasis placed on urban market penetration . . .

Sales of the consolidated operations in Canada increased to a new high. The western Canada economy has been adversely affected due in a large measure to the grain export situation. The depressant effect of this economy together with the company's attitude of holding the line on price increases has also resulted in lower earnings.

The name of the Canadian parent company was changed during the year from Gamble Macleod Limited to Gambles Canada Limited.

Gambles Canada Limited plans to aggressively enlarge the scope of its merchandising activities in all divisions. Gamble Discount De-



Typical of the consumer-merchant dialogues taking place every day in the 1,323 Gamble dealer stores in 24 states, is this scene in the Montevideo, Minnesota franchised outlet operated by August Bode.

partment Stores, operated by Clark's-Gamble of Canada Limited, will be extended as major emphasis is being placed on urban market penetration. Additional company-owned stores will be developed in the year ahead by Macleods, Stedmans and Marshall Wells and the franchising programs in these divisions will be enlarged.

Stedmans Division, which operates 121 branch stores and 219 franchise outlets from Vancouver to Newfoundland, recently opened its new headquarters and distribution center in suburban Toronto.

Financial services expanded in 1969 to include leasing and employee personal insurance lines . . .

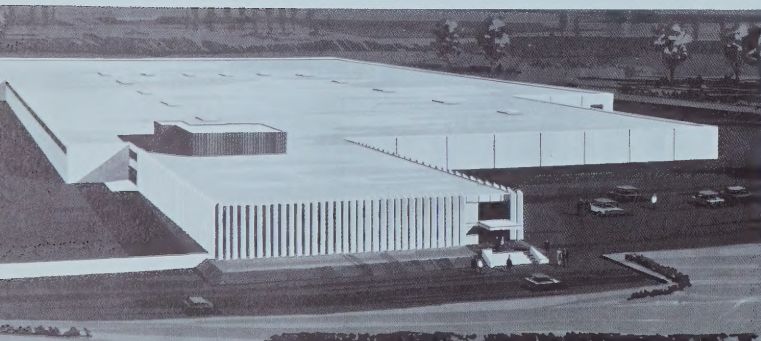
Gamble Alden Life Insurance Company made great strides . . .

Financial services were again extended during the year to provide more activities that are compatible with the company's overall mass merchandising concept.

Gambles Leasing, Inc. was organized early in the year to offer a wide range of leasing services including retail store equipment, furniture and operation equipment for hotels, motels and restaurants, and vehicles. Subsequently the company acquired the Minneapolis-based C & M Leasing Company (now Gambles C & M Leasing Company) to handle automobile and truck leasing operations.

Gamble Alden Agency, Inc. has now introduced a complete personal lines property and casualty insurance program available to employees through payroll deduction. This new service is in addition to its previous functions of marketing multiple-line insurance.

Gamble Alden Life Insurance Company made great strides the past year and increased its life insurance in force to more than \$700



The Stedmans Division recently constructed this 312,000 square foot distribution center and office building in suburban Toronto, Ontario, Canada.

million. In the past five years life insurance in force has risen to its present figure from \$53 million. Principally through administration of the company's pension plan, admitted assets of the company grew from \$6.4 million a year ago to \$28.2 million at year end. The premium income jumped almost one-third from \$8.1 million to \$10.7 million.

Financial services now offered by the company include banking, insurance, leasing, sales of securities, travel services, and convenience centers.

Gambles Continental State Bank in St. Paul showed a 16.3 percent increase in deposits for a record total of \$14,602,853. Net earnings for the year increased 69.4 percent.

Gamble-Alden Securities Inc. offers financial planning services to Gambles customers and markets Gamble-Skogmo 7% Income Notes, brokers several hundred mutual funds and Gamble Alden Life Insurance. Gamble-Alden Securities has expanded to five regional offices located in Minneapolis; Dubuque, Iowa; Hastings, Nebraska; Columbus, Ohio; and Green Bay, Wisconsin.

Complete arrangements for pleasure as well as business travel are provided by the professional staff of Gambles Holiday Travel Service. Located in the Gamble Building, the Travel Service handles travel for individuals as well as group tours.

Customer Convenience Centers continue to play a key role in making Gambles stores more of a "one stop" center. These much sought after money services continue to contribute to traffic and income.

Gamble Department Stores subsidiary continues to grow . . . J. M. McDonald Co. division sales up . . . Recognition received . . .

Gamble Department Stores recorded the larg-

est increase in sales and earnings in its history.

Two major department stores were acquired during the year bringing to 26 the number of department stores in the Gamble Department Stores subsidiary of the company.

In June the company entered the Utah department store market with its acquisition of The Paris Co., at Salt Lake City. Incorporated in 1897, The Paris Co. is one of the leading fashion stores in the area. In addition to its main store downtown, the company operates a branch outlet in suburban Salt Lake City. Plans are under way to develop another store in that general area during 1970.

August saw the acquisition of Robertson Brothers Department Store, Inc., operator of Robertson's, the major department store in South Bend, Indiana. Robertson Brothers, which has been incorporated since 1904, is recognized as the fashion leader in its Indiana-Michigan trade area. Plans to build a second complete Robertson's department store consisting of 100,000 square feet, in the Elkhart-Goshen area of Indiana, were announced recently.

A new 140,000 square foot department store was opened as the anchor store in the Kennedy Mall — the first enclosed mall in Iowa — replacing the Roshek's downtown unit in Dubuque.

Sales of the J. M. McDonald Co. department store division reached their highest in company history. Two McDonalds stores located in San Jose, California were awarded honors as Brand Name stores of the year. Hacienda Garden store was selected as the Brand Name department store of the year, while Westgate Shopping Center store won the Certificate of Distinction as number one in the Specialty Store Division.

Opening in 1970 will be new stores in Hastings, Nebraska, and Wichita, Kansas; both are



The Paris Co. in Salt Lake City was acquired during the year.

Robertson Brothers, in South Bend, Indiana, is the latest acquisition of the Gamble Department Stores subsidiary.

40,000 square foot outlets of the most modern type. McDonalds is thus opening its seventh store in the city of Wichita. Continuation of modernization, expansion and offering of quality brand-name merchandise is giving McDonald stores increased customer establishment in ten western states.

Red Owl has banner year . . .
Family centers to be extended . . .
New restaurant plans announced . . .

Red Owl's sales and earnings reached an all-time high for the 53-week year ended January 31. Sales were up over 12 percent and earnings increased a like amount. Average annual sales per company-owned store were actually up 15 percent over the previous year. Approximately 275,000 square feet of store area was added during the year. Also, the company has purchased or leased more than 200,000 square feet of distribution center space to provide facilities for its expanded sales volume. A meat

service center is nearing completion adjacent to the Hopkins headquarters and should be in operation during 1970 to assure customers of better service, lowest possible prices and superior quality.

At year end, Gambles owned 81.1 percent of the outstanding stock of this highly progressive company.

Favorable consumer acceptance of the Red Owl Family Center concept has led to the aggressive expansion of this division by the Red Owl food chain subsidiary.

Under construction and scheduled to open this year are Family Centers at Escanaba, Michigan; Bloomington (suburban Minneapolis); Williston, North Dakota; Hibbing, Minnesota, and Cedarburg, Wisconsin. These mass merchandising retail outlets range in size from 20,000 to 72,000 square feet.

The five new outlets will bring to thirteen the number of retail units in Red Owl's Family Center division which presently includes four outlets in Minnesota, two in North Dakota, one each in South Dakota and Iowa.

In addition, the Family Center at Coon Rapids, in the suburban Twin Cities, is presently being doubled in size to 90,000 square feet.

The success of the Family Center concept reflects not only the complete compatibility of hardlines, softlines, drugs and foods on the same sales floor, but also the ever-increasing consumer demand for the availability of a full range of consumer goods and services geared to the convenience of one-stop shopping.

Near the close of the fiscal year, Red Owl opened its first Red Key fast-service restaurant in suburban Minneapolis. This prototype outlet offers both take-out ready-to-serve foods and eating accommodations on the premises. The results of this experiment are being closely studied to determine the company's future expansion possibilities which could be either company-owned or franchised. The initial consumer acceptance of this venture has been gratifying, and the future of this type operation at this early stage looks bright. Red Owl entered the restaurant business on a major scale in 1962 with its acquisition of Snyder's Drug Stores, Inc., currently operators of 39 restaurants in its 28 drug stores and 11 Red Owl food stores and Family Centers, and the Red Key.



Newest in the Red Owl Family Center Division is this 75,500 square foot retail outlet at Pierre, South Dakota.



The first Red Key fast-service restaurant was recently opened.

Tempo Division becomes pace setter . . .

A new management team of the Tempo Division was announced in July. Mr. E. O. Wack, in addition to his other responsibilities, was named President and Philip J. Troy was appointed Executive Vice President and General Manager.

Working with the management consulting group from McKinsey & Company, Tempo management conducted a comprehensive review of virtually every phase of its operations. A redefinition of management responsibilities at headquarters and at retail outlets, one of the results suggested by this study, will now permit a greater concentration of professional expertise on the development of Tempo's merchandising programs. Better planning of the merchandise and promotional programs will provide chain-wide strength and consistency necessary to fully develop the potential of Tempo's multi-store operation.

Tempo's new merchandising programs will "set the pace" as a leader in serving its customers, and the pace setter theme is being developed to identify Tempo in the customer's mind. Extensive use of this theme both in the store and in newspaper, radio and television promotions will establish an aura of Tempo as a fresh and exciting place for both young and old to shop. New emphasis on fashion for women, and greater depth in merchandise appealing to men and children will make Tempo attractive to the whole family.

Aldens reported record sales and earnings for the year . . .

Merchandising refinements include the addition of Mode O'Day fashion apparel and heavy use of Gambles Import Corporation . . .

Aldens, Inc., the nation's fourth largest catalog house, experienced the best sales and earnings



Periodic merchandise shows and sales clinics are one of the major strengths of the Gamble Stores Division dealer program.

in its company's history. Part of the sales increase is attributed to a revision in the firm's credit terms. It is intended that these changes will encourage customers to fully utilize their borrowing capacity and to purchase bigger ticket items.

After reappraising its merchandising programs, Aldens management adopted a program of fashion flexibility to move ahead of trends in a fast changing fashion world. The company is purchasing an increasing amount of goods through the Gambles Import Corporation as well as apparel from Mode O'Day, which manufactures and is able to provide a better scheduling of deliveries than can be obtained from other sources.

Quality standards continue to be raised at the same time that all efforts are being made to maintain competitive pricing structures.

In the year ahead, new merchandising and



The first franchised Snyder's drug outlet made its debut recently in Hastings, Minnesota.



promotional techniques will be further extended in addition to increasing operating efficiencies.

Further emphasis placed on people to keep step with planned company growth . . .

To prepare for the needs of the future, an aggressive program of recruiting, selecting and training personnel continues. Upgrading where necessary, too, is part of an overall master plan. Pictured is a career conference sponsored by several divisions of the company at which job opportunities in the retail merchandising field are discussed. Students are thus encouraged to thoroughly explore these possibilities early in life for their future careers. School authorities, too, are enthusiastic about these conferences as exposure to career opportunities may result in students continuing school as long as possible to acquire the educational level needed for good positions.

Company management believes firmly in the value of incentive compensation to inspire optimum executive performance. Effective at the beginning of the new fiscal year on February 1, 1970, executive incentive programs were installed or revised in all profit centers — all will now be geared to the achievement of specific profit budgets and goals.



Five thousand Minneapolis area junior high school students visited this Career Fair booth.



Additional store traffic was generated in this Tempo outlet at Hastings, Nebraska by a personal appearance of the Cowsills, the popular family singing group.

Gamble Development Company, real estate arm of Gambles . . .

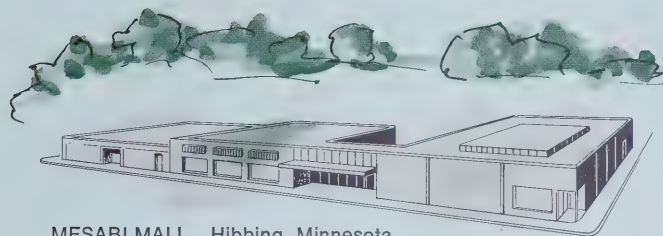
Two years ago the company formed a real estate subsidiary, Gamble Development Company, to develop the concept of integrated shopping centers in which the various component retail divisions and subsidiary operations could either dominate or play a large part. It is recognized that mail order, specialty and service shops, in addition to retail outlets of various types, should be incorporated into these centers.

During the year, Gamble Development Company announced the construction of five shopping complexes in Minnesota and Wisconsin in addition to one announced last year at Escanaba, Michigan.

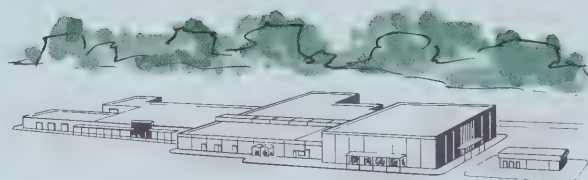
To offer year-round comfort and convenience to consumers, and in recognition of the rigors of northern winters and the potential heat of summers, all six centers will be completely enclosed, weather-controlled malls.

The center in Two Rivers, Wisconsin, will be composed entirely of retail outlets franchised by five Gambles divisions and subsidiaries. Each of the other shopping centers will include one or more national department stores, a number of local merchants, and several Gamble-affiliated shops. Each complex will have either a Red Owl Family Center including a Snyder's drug department, or a conventional Red Owl food store and a Snyder's drug store.

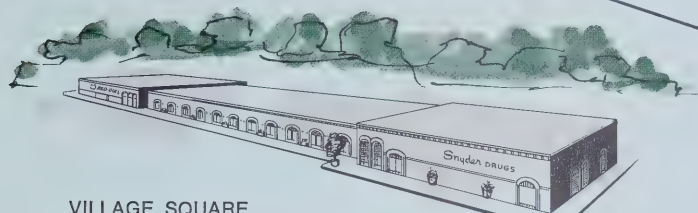
Gamble Builds Six New Enclosed Malls



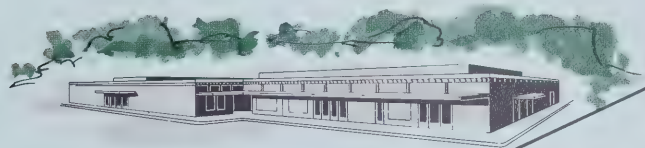
MESABI MALL Hibbing, Minnesota



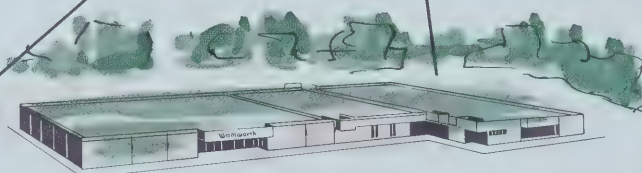
THUNDERBIRD MALL Virginia, Minnesota



VILLAGE SQUARE
Inver Grove Heights, Minnesota
(suburban St. Paul)



KIMBERLY PLAZA Kimberly, Wisconsin



DELTA PLAZA Escanaba, Michigan

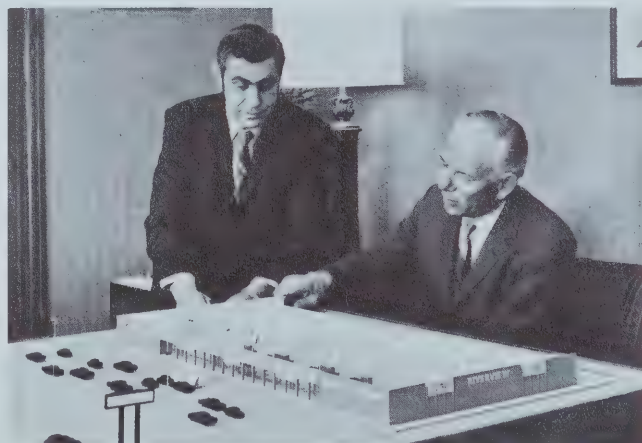


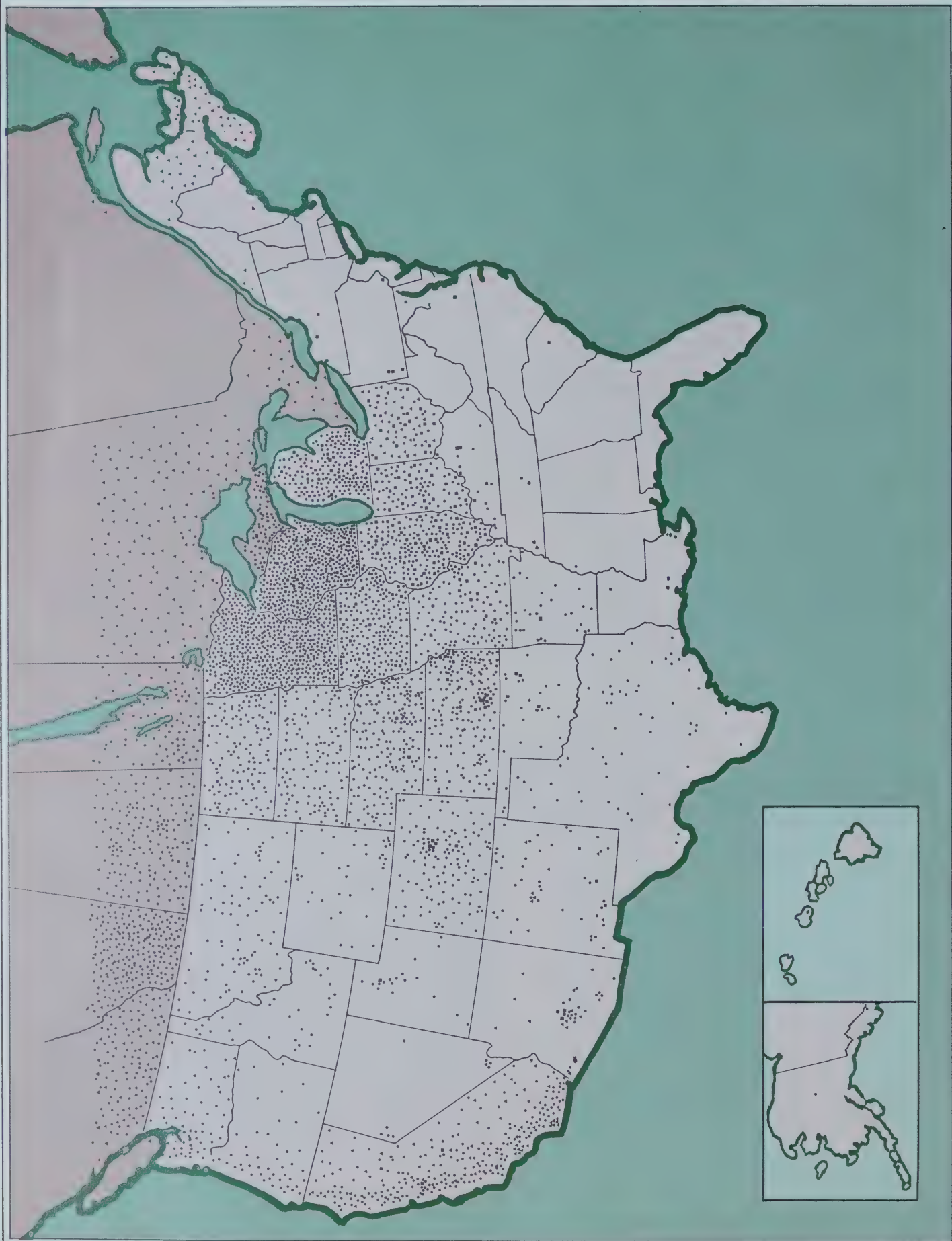
RIVERVIEW Two Rivers, Wisconsin (all-Gamble operation)

All six shopping malls, ranging in various sizes up to 210,000 square feet, are scheduled to be in operation by year-end 1970.

In addition to Escanaba and Two Rivers, the four additional complexes are located at Inver Grove Heights in suburban St. Paul; Hibbing and Virginia, Minnesota, and Kimberly, Wisconsin.

J. E. Gottlieb, Senior Vice President for Real Estate of Gambles and President of Gamble Development Company, shows model of Gambles first all-franchised shopping center to L. W. Rixe, Senior Vice President and Controller.





This map is intended only to show the geographical scope and density of our retail outlets, but not necessarily exact locations.

Retail Outlets

Franchises

Gamble Dealers	Skogmo Dealers	Rasco Dealers	Mode O' Day Dealers	Eisen Dealers	Red Owl Dealers	Total
2	2	12	15			2
1			20	1		29
		88	173			22
70	3		22	3		261
						1
15		4	13	1		33
91			31	17		139
33	1		10	3		47
120	10		31	8	12	181
87	7		24	5		123
7				3		10
				1	2	3
129	13		7	2	11	162
180	43		5	1	113	342
59	1		36			96
63	4		6			73
111	14		13	2		140
		1	8			9
20		10	15	1		46
				1		1
56	15		1		41	113
15			7	4		26
3			18	1		22
		1	55			56
69	7		3	1	32	112
				3		3
2			51			53
3						
			17	1		20
1						1
		10	45			56
164	48		8	14	65	299
22	1		7			30
1323	167	126	645	74	274	2609

Gambles Canada Limited

Franchises

51	35	95	181	Total
4	24	70	98	
40	5	40	85	
	6		6	
	11		11	Macleods Dealers
4	115	4	123	
	2		2	
	3		3	
60	18	57	135	
				Stedmans Dealers
159	219	268	646	Marshall Wells Dealers
		2	2	

Principal Offices, Divisions and Subsidiaries

OPERATIONS IN THE UNITED STATES—

Minneapolis, Minnesota:

5100 Gamble Drive (55416)

GAMBLE-SKOGMO, INC. J. A. WATSON
Corporate headquarters

GAMBLE ALDEN AGENCY, INC. L. E. DOLAN
Markets multiple-line insurance coverages and securities

GAMBLE ALDEN LIFE INSURANCE COMPANY E. C. WILLIAMSON
Provides life, health and credit insurance

GAMBLE-ALDEN SECURITIES INC. J. H. OFFERMAN
Offers subordinated income notes of the parent company and registered mutual funds

GAMBLE DEVELOPMENT COMPANY J. E. GOTTLIEB
Develops and leases real estate

GAMBLE SKOGMO ACCEPTANCE CORPORATION C. R. BRANSON
Purchases installment receivables from the parent company and its franchised dealers

GAMBLE STORES DIVISION G. S. YOUNGER
Operates and franchises Gamble general merchandise stores and Skogmo softlines stores

GAMBLES HOLIDAY TRAVEL SERVICE DIVISION W. A. BENSON, Jr.
Provides business and vacation travel services to the general public

TEMPO STORES DIVISION E. O. WACK
Operates and franchises Tempo mass merchandising department stores

1701 Johnson Street N.E. (55413)

GAMBLES C & M LEASING COMPANY C. R. BRYNTESON
Leases motor vehicles and other equipment to fleet and individual users

Hopkins, Minnesota:

215 East Excelsior Avenue (55343)

RED OWL STORES, INC. J. H. WILLE
Operates and franchises food stores

SNYDER'S DRUG STORES, INC. L. D. BERKUS
Operates and franchises drug stores

RED KEY FOODS, INC. L. D. BERKUS
Operates restaurants

St. Paul, Minnesota:

441 Wabasha (55102)

GAMBLES CONTINENTAL STATE BANK D. L. GUIMONT
Provides general banking services

Chicago, Illinois:

5000 West Roosevelt Road (60607)

ALDENS, INC. C. R. WUNDERLICH
Operates mail order and catalog sales outlets

GAMBLE ALDENS FINANCE COMPANY W. H. DAVIES, Jr.
Purchases receivables from Aldens, Inc.

GAMBLE DEPARTMENT STORES, INC. R. E. RILEY
Operates conventional department stores

Columbus, Ohio:

3636 Indianola Avenue (43214)

CUSSINS & FEARN DIVISION M. E. DAVIS
Operates Cussins & Fearn variety stores and mass merchandising Buckeye Marts

Lenexa, Kansas:

8101 Lenexa Drive (66214)

EISEN MERCANTILE DIVISION M. EISEN
Operates and franchises "House of Fabrics" shops

New York, New York:

450 West 33rd Street (10001)

GAMBLES CORPORATE BUYING DIVISION A. PALEY
Corporate buying offices for softline fashion goods

Burbank, California:

2130 North Hollywood Way (91505)

MODE O'DAY DIVISION I. M. MALOUF
Operates and franchises dress shops; operates factories

2777 North Ontario Street (91504)

GAMBLES IMPORT CORPORATION H. D. NELSON
Corporate import buying services

RASCO STORES DIVISION W. H. LOLLAR
Operates and franchises variety stores and mass merchandising stores

Hastings, Nebraska:

2635 West Second Street (68901)

J. M. McDONALD CO. DIVISION C. E. BLAIR
Operates and offers franchises for department stores

OPERATIONS IN CANADA—

Winnipeg, Manitoba:

1530 Gamble Place (19)

GAMBLES CANADA LIMITED R. B. SUTHERLAND
Directs all Canadian operations

CLARK'S-GAMBLE OF CANADA LIMITED W. G. SPALDING
Operates mass merchandising stores

GAMBLE DRUGS LIMITED J. B. CHEYNE
Offers wholesale drugs and sundries

MACLEODS DIVISION P. C. FIKKAN
Operates and franchises general merchandise stores

1395 Ellice Avenue (21)

MARSHALL WELLS LIMITED S. J. COPPINGER
Operates and franchises hardware stores

Montreal, Quebec:

4090 Jean Talon Street West (9)

CLAUDE NEON ADVERTISING LIMITED G. W. CASPARI
Offers outdoor and electrical sign service

Toronto, Ontario:

7622 Keele Street

STEDMANS DIVISION E. J. MCCREADY
Operates and franchises variety stores

Gamble-Skogmo, Inc. and Consolidated Subsidiaries

Significant Comparisons

(All Dollars in Thousands except Amounts per Share)

Fiscal Year Ended in January	1970	1969	1968	1967	1966
Results for the year:					
Sales — Including Leased Departments...	\$1,257,580	\$1,143,741	\$ 917,966	\$ 713,959	\$ 637,333
Net Sales —					
Excluding Leased Departments.....	1,242,294	1,129,902	896,372	688,898	611,588
Earnings before Income Taxes					
and Minority Interests.....	27,779	28,379	25,452	28,028	25,615
Federal, State and Canadian Taxes.....	13,873	14,422	12,940	14,451	12,485
Net Earnings.....	13,206	13,173	11,995	13,279	13,035
Per Share of Common Stock:					
Earnings Per Common Share					
Including Common Equivalent (1)	2.66	2.81	2.51	2.90	2.85
Cash Dividends	1.30	1.30	1.30	1.25	1.20
Book Value	29.83	28.69	26.28	24.95	23.16
Book Value Assuming					
Conversion of Preferred Stock.....	32.21	31.60	30.16	29.31	28.17
Year End Position — Operating Companies:					
Inventories	198,739	212,562	187,388	171,359	150,202
Net Working Capital.....	191,546	173,166	165,955	207,593	176,240
Current Ratio	2.23 to 1	2.32 to 1	2.60 to 1	2.45 to 1	2.26 to 1
Capital Funds — Comprising Stockholders' Equity and Subordinated Income Notes	258,223	244,838	201,307	165,400	152,820
Year End Position — Finance Companies (2):					
Customer Deferred Payment Accounts....	224,307	235,617	227,569	—	—
Long-term Debt — Senior	64,896	71,693	76,573	—	—
Long-term Debt — Subordinated	14,724	15,606	16,253	—	—
Stockholders' Equity	62,403	60,812	57,901	—	—
Number of:					
Full Time Employees.....	26,349	26,741	27,286	23,768	21,754
Company-owned Stores	802	907	987	782	753
Company-owned Catalog Offices	86	103	104	119	111
Authorized Dealers	3,255	3,231	3,349	3,104	3,115
Shareholders	18,101	17,299	17,059	16,476	16,576
Common Shares Outstanding at year end..	3,839,951	3,602,430	3,454,885	3,454,460	3,443,983

(1) Earnings per common share have been restated to conform with Accounting Principles Board Opinion 15. See note 10 to the consolidated financial statements.

(2) Finance company information for 1966 and 1967 is not obtainable as certain finance operations were included within the operating companies in those years.

Gamble-Skogmo, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheet / January 31, 1970 with Comparative Figures at January 25, 1969

(All Dollars in Thousands)

ASSETS	1970				1969
	Operating Companies	Finance Companies	Real Estate Companies	Consolidated	Consolidated
Current Assets:					
Cash, including temporary cash investments	\$ 49,720	\$ 5,807	\$ 505	\$ 56,032	\$ 36,923
Receivables (note 2)	87,974	224,767	6,667	282,893	281,361
Inventories at lower of cost or market ...	198,739	—	—	198,739	212,562
Prepaid expenses	10,845	352	7	11,204	11,221
Total Current Assets	<u>347,278</u>	<u>230,926</u>	<u>7,179</u>	<u>548,868</u>	<u>542,067</u>
Investments (note 1):					
Investments in subsidiaries	73,459	—	—	6,501	5,288
Other securities and notes receivable, at cost	6,872	6,038	1,284	10,117	7,819
Total Investments	<u>80,331</u>	<u>6,038</u>	<u>1,284</u>	<u>16,618</u>	<u>13,107</u>
Property and equipment — net (note 3)	70,211	—	36,910	107,121	98,722
Intangible assets, arising in connection with acquisition of subsidiary companies (note 4)	27,067	—	—	27,067	27,102
Deferred charges and miscellaneous assets ...	13,743	330	308	14,067	14,445
	<u>\$538,630</u>	<u>\$237,294</u>	<u>\$45,681</u>	<u>\$713,741</u>	<u>\$695,443</u>

See accompanying notes to consolidated financial statements.



GAMBLE-SKOGMO, INC.

Liabilities and Stockholders' Equity	1970			1969	
	Operating Companies	Finance Companies	Real Estate Companies	Consolidated	Consolidated
Current Liabilities:					
Notes Payable	\$ 302	\$ 59,133	\$ —	\$ 59,435	\$ 79,638
Current Instalments of long-term debt....	6,052	6,197	1,269	13,518	6,265
Accounts payable and accrued liabilities..	110,541	29,585	4,990	108,602	104,558
Current income taxes.....	3,377	42	8	3,427	4,769
Deferred taxes applicable to instalment sales.....	35,460	—	—	35,460	31,114
Total Current Liabilities....	<u>155,732</u>	<u>94,957</u>	<u>6,267</u>	<u>220,442</u>	<u>226,344</u>
Deferred credits (note 5).....	6,512	314	399	6,911	5,583
Minority interests in consolidated subsidiaries.	7,160	—	—	7,160	7,086
Long-term debt (note 6) excluding subordinated income notes shown below as capital funds:					
Senior long-term debt.....	111,003	64,896	34,460	210,359	200,064
Subordinated long-term debt.....	—	14,724	—	14,724	15,606
Total Long-term debt.....	<u>111,003</u>	<u>79,620</u>	<u>34,460</u>	<u>225,083</u>	<u>215,670</u>
Capital funds:					
7% Subordinated income notes, due to 1988.....	71,757	—	—	67,679	65,007
Stockholders' equity	186,466	62,403	4,555	186,466	175,753
Total Capital Funds.....	<u>258,223</u>	<u>62,403</u>	<u>4,555</u>	<u>254,145</u>	<u>240,760</u>
Contingent liabilities and commitments (note 11)	<u>\$538,630</u>	<u>\$237,294</u>	<u>\$ 45,681</u>	<u>\$713,741</u>	<u>\$695,443</u>

Consolidated Statement of Earnings

(All Dollars in Thousands Except Earnings Per Share)

	Fifty-three weeks ended January 31, 1970	Fifty-two weeks ended January 25, 1969
Sales and other income:		
Sales	\$1,257,580	\$1,143,741
Less leased department sales	15,286	13,839
Net sales	1,242,294	1,129,902
Advertising and broadcasting revenues	16,110	14,263
Other income — net (note 1)	5,436	3,685
Total	1,263,840	1,147,850
Costs and Expenses:		
Cost of sales, including certain occupancy and buying costs	947,569	860,270
Operating and administrative expenses (net of instalment account service charges)	243,028	219,808
Depreciation and amortization	11,617	10,937
Interest	29,698	23,905
Provision for employees' pension and thrift sharing plans (note 7)	4,149	4,551
Total costs and expenses	1,236,061	1,119,471
Earnings before income taxes and minority interests	27,779	28,379
Income taxes including deferred taxes of \$4,850 and \$6,904 (note 2)	13,873	14,422
Minority interest in earnings of subsidiaries	700	784
Net earnings	\$ 13,206	\$ 13,173
Earnings Per Share (note 10):		
Common including common equivalent	\$2.66	\$2.81
Common assuming full dilution	\$2.31	\$2.36

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity/ Fifty-three weeks ended January 31, 1970
(All Dollars in Thousands)

	Capital Stock (Note 8)		Additional Paid in Capital	Retained Earnings (Note 9)	Total Stockholders' Equity
	Preferred	Common			
Beginning of Period	\$30,598	\$18,012	\$12,105	\$115,038	\$175,753
Net earnings				13,206	13,206
Cash dividends declared:					
\$1.75 preferred, \$1.60 preferred				(3,180)	(3,180)
Common — \$1.30 per share				(4,882)	(4,882)
Issuance of Common Stock:					
Business acquisitions, 211,933 shares		1,060	1,955	2,145	5,160
Exercise of common stock warrants, 16,123 shares		80	329		409
Conversion of preferred stock — 40 shares of \$40 par and 9,425 shares of \$5 par to 9,465 common shares	(49)	48	1		—
End of Period	<u>\$30,549</u>	<u>\$19,200</u>	<u>\$14,390</u>	<u>\$122,327</u>	<u>\$186,466</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Source and Application of Funds

(All Dollars in Thousands)

	Fifty-three weeks ended January 31, 1970	Fifty-two weeks ended January 25, 1969
Source of funds:		
Net earnings	\$13,206	\$13,173
Depreciation and amortization	11,617	10,937
Proceeds from common stock issuance	3,424	3,651
Increase in long-term debt	9,413	—
Increase in subordinated income notes	2,672	31,367
Retained earnings of business acquisition	2,145	—
Other sources	1,815	2,016
	<u>\$44,292</u>	<u>\$61,144</u>
Application of funds:		
Cash dividends	\$ 8,062	\$ 7,612
Increase in working capital	12,703	6,907
Additions to fixed assets, net of disposals	20,016	12,917
Increase in investments	3,511	3,711
Debt discount	—	2,303
Reduction of long-term debt	—	25,465
Other applications	—	2,229
	<u>\$44,292</u>	<u>\$61,144</u>

See accompanying notes to consolidated financial statements.

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co., 1800 Midwest Plaza Building, Minneapolis, Minnesota 55402

The Board of Directors and Stockholders
Gamble-Skogmo, Inc.:

We have examined the consolidated balance sheet of Gamble-Skogmo, Inc. and consolidated subsidiaries as of January 31, 1970 and the related statements of earnings and stockholders' equity and the statement of source and application of funds for the fifty-three weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Gamble-Skogmo, Inc.

and consolidated subsidiaries at January 31, 1970 and the results of their operations for the fifty-three weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and application of funds for the fifty-three weeks ended January 31, 1970 presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.

March 27, 1970

Notes to Consolidated Financial Statements

January 31, 1970

(1) Principles of Consolidation

The consolidated financial statements include the accounts of Gamble-Skogmo, Inc. and all subsidiaries; except a wholly-owned life insurance subsidiary and certain other subsidiaries, all of which, when considered in the aggregate, do not constitute a significant subsidiary. The investments in all unconsolidated subsidiaries are carried at underlying equity values.

Earnings of the unconsolidated subsidiaries, included in other income, were \$1,635,000 in 1970 and \$881,000 in 1969, and represent principally the earnings of the insurance subsidiary. During the year ended January 31, 1970, the life insurance subsidiary entered into an agreement with the Company to administer the assets of the Gamble-Skogmo, Inc. and Subsidiaries' Pension Plan. In prior years these assets were administered by other financial institutions under various former plans of the Company and its subsidiaries. An administrative fee for the current period of \$1,047,000 (\$759,000 after income taxes) was paid by the Pension Plan to the insurance subsidiary in connection with a transfer of substantially all pension plan assets to the Fund established by the insurance subsidiary.

Provision has been made for loss on conversion of the accounts of Canadian subsidiaries to U. S. dollars.

(2) Receivables

Customer deferred payment accounts	\$262,660,000
Other customer accounts	26,714,000
Miscellaneous	14,038,000
Total accounts receivable	303,412,000
Less allowance for doubtful accounts and estimated collection expenses	20,519,000
Net receivables	<u>\$282,893,000</u>

In January, 1970, the Company sold to banks approximately \$42,000,000 of customer deferred payment accounts. For Federal tax purposes gross profit realized on these accounts, previously deferred, was realized and has eliminated operating loss carryforwards.

(3) Property and Equipment (at cost)

Land	\$ 11,128,000
Buildings and equipment	159,837,000
	170,965,000
Less allowance for depreciation	72,766,000
	98,199,000
Leasehold improvements less amortization	8,922,000
Net Property and Equipment	<u>\$107,121,000</u>

Canadian subsidiaries of Gamble-Skogmo, Inc. and the Eisen Mercantile and Mode O'Day Divisions use the declining balance method of computing depreciation; all other divisions and companies use the straight-line method.

Substantially all the properties of the wholly-owned real estate subsidiaries are pledged as collateral under the long-term debt agreements.

(4) Intangible Assets

The Companies do not intend to amortize the remaining balance of intangible assets arising in connection with the acquisition of subsidiaries since there has been no evidence of impairment of value of the assets and business of such subsidiaries.

(5) Deferred Credits

Deferred credits are comprised principally of deferred income taxes on undistributed earnings of Canadian subsidiaries and differences between tax and financial accounting for depreciation charges.

(6) Long-term Debt

At January 31, 1970, long-term obligations, exclusive of current portions, consisted of the following:

Senior indebtedness:

Revolving credit agreements at prime to 1/2% over prime	\$ 80,000,000
Sinking fund debentures, 5% to 6%, maturing to 1982	32,430,000
Notes Payable:	
5% to 8 3/4%, unsecured, due to 1984	55,596,000
4 1/4% to 9 1/2%, secured by equipment and real estate, due to 1997	42,333,000
	<u>210,359,000</u>

Subordinated notes, 5% to 5 7/8%, maturing to 1985	14,724,000
	<u>\$225,083,000</u>

At January 31, 1970, the Company had borrowed the maximum amounts under \$20,000,000 and \$60,000,000 revolving credit agreements with banks at prime to 1/2% over prime interest rates. The terms of the \$60,000,000 agreement were amended subsequent to January 31, 1970, and will permit certain finance companies to borrow an aggregate \$40,000,000 under the agreement. As amended, the portion of such loans outstanding at February 28, 1971, and April 15, 1972, respectively, may be converted into five and three year term loans. Commitment fees are payable during periods the Company fails to borrow the maximum amount permitted under the respective agreements. The terms of the \$60,000,000 revolving credit agreement require maintenance of consolidated net current assets (as defined) of \$60,000,000 and equal to or greater than 130% of consolidated current liabilities plus amounts outstanding under revolving credit agreements. \$20,000,000 of such notes have been paid subsequent to January 31, 1970.

Annual payments of long-term debt during the next five years are as follows: 1971—\$13,518,000; 1972—\$16,873,000; 1973—\$23,611,000; 1974—\$33,636,000; 1975 — \$33,809,000. The foregoing amounts assume the \$80,000,000 authorized under the revolving credit agreements will be converted to term loans.

(7) Pension and Thrift Sharing Plans

Effective January 25, 1969, the Company and its domestic subsidiaries adopted a new pension plan and a contributory thrift sharing plan based on income. All former pension and profit sharing plans were amended to comply with the provisions of the new pension plan. Costs under the new plans did not change significantly. The provision for pension and thrift sharing in the accompanying statement of earnings include these plans together with foreign, union and supplementary retirement plans for officers and key employees. It is the Company's policy to fund normal cost accrued and interest on prior

service costs. The actuarially computed value of vested benefits for all plans at January 31, 1970, does not exceed the total of the pension fund and balance sheet accruals.

(8) Capital Stock

The capital stock consists of the following:

	January 31, 1970	January 25, 1969
(a) Voting, cumulative, convertible preferred stock:		
(1) \$40 par value; \$1.75 per share dividend; authorized 600,000 shares; issued 596,952 and 596,992 shares ...	\$23,878,000	\$23,880,000
(2) \$5 par value; \$1.60 per share dividend; authorized 1,400,000; issued 1,334,245 and 1,343,670 shares (aggregate preference upon involuntary liquidation \$46,699,000)	6,671,000	6,718,000
	30,549,000	30,598,000
(b) Common stock of \$5 par value; authorized 10,000,000 shares; issued 3,839,951 and 3,602,430 shares	19,200,000	18,012,000
	<u>\$49,749,000</u>	<u>\$48,610,000</u>

At January 31, 1970, common shares were reserved as follows:

	Shares
Conversion of preferred stock	1,949,106
Employee stock options	652,600
Common stock purchase warrants	634,708
	<u>3,236,414</u>

Each share of \$1.75 preferred stock is convertible into 1.03 shares of common stock until October 31, 1973; 9,037/10,000ths of a share to October 31, 1978, and 8,024/10,000ths of a share to October 31, 1983, on which date conversion rights expire. The stock is redeemable at the option of the company at \$42.25 per share plus accrued and unpaid dividends during the year ending October 31, 1970, with successive annual reductions of 25¢ per share to \$40.00 per share on and after November 1, 1978. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1983.

Each share of \$1.60 preferred stock is convertible into one share of common stock until November 30, 1974, 9/10th of a share to November 30, 1979, and 8/10th of a share to November 30, 1984, on which date conversion rights expire. The stock is redeemable at the option of the company and in the event of involuntary liquidation at \$35.00 per share plus accrued and unpaid dividends. In the opinion of legal counsel the excess of the amount to be paid upon involuntary liquidation over par value, \$40,027,000 at January 31, 1970, does not constitute a restriction of retained earnings. Sinking fund requirements, equal to 5% of shares issued, commence in 1984.

Under the company's stock option plans for its executives and key employees, options are granted at market value and are exercisable from two to five years after date of grant. Shares

under option were as follows:

	Shares
Outstanding January 25, 1969	162,500
Granted	191,200
Expired	(41,600)
Outstanding January 31, 1970	<u>312,100</u>

The aggregate option price for shares outstanding at January 31, 1970, was \$8,383,000.

Warrants to purchase common stock issued principally in connection with the sale of subordinated income notes are exercisable as follows:

Price	Expiration Date	Shares
\$25.22	May, 1970	202,061
25.50	July, 1976	126,000
33.00/40.00	July, 1976/January, 1984	280,000
36.00	August, 1975	26,647
		<u>634,708</u>

(9) Retained Earnings

Retained earnings at January 31, 1970, include undistributed earnings of subsidiaries, \$85,130,000, of which approximately \$22,000,000 is restricted as to payment of dividends under the terms of various indentures and agreements relating to long-term debt.

(10) Earnings Per Share

Earnings per common including common equivalent share has been computed, retroactively, in accordance with Accounting Principles Board Opinion Number 15 and is based on the weighted average number of shares of common stock and common stock equivalents (stock options and warrants) outstanding during the year. The average number of such shares outstanding was 3,773,516 in 1970 and 3,544,637 in 1969.

Earnings per common share assuming full dilution is computed assuming conversion of all convertible preferred stock with appropriate elimination of preferred dividend requirements and exercise of stock options and warrants. For purposes of the above computations, the treasury stock method was used in determining outstanding shares from exercise of options and warrants.

(11) Contingent Liabilities and Commitments

During 1969 a United States District judge ruled that the Company omitted material information from a proxy statement and failed to present a fair plan of merger in connection with the 1963 merger with General Outdoor Advertising Co., Inc. Hearings are currently being conducted before a special master who will determine resultant damages, if any. After considering the Company's rights of appeal and reviewing this matter with legal counsel, the Company does not expect the outcome of this matter to materially affect its financial position.

The approximate minimum annual rentals under leases in effect during the fiscal year ending in 1971, exclusive of leases with wholly-owned real estate subsidiaries, amount to \$20,356,000 which is summarized according to lease expiration periods as follows: fiscal years 1971-1975, \$90,839,000; 1976-1980, \$65,351,000; 1981-1990, \$60,826,000, and subsequently \$9,039,000. These amounts exclude maintenance costs, real estate taxes, insurances, etc., and increased amounts based on percentages of sales which may be payable in some cases.

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B. F. Davidson
W. H. Davies, Jr.
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A. G. Johnson
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C. C. Raugust
B. L. Robbins
H. C. Stephens
E. O. Wack
C. R. Wunderlich

Officers

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J. A. Watson, President
W. H. Davies, Jr., Vice Chairman of the Board and Treasurer
L. E. Dolan, Vice Chairman of the Board and Secretary
A. G. Johnson, Executive Vice President for Buying and Merchandising
J. E. Gottlieb, Senior Vice President for Real Estate
F. R. Lombaer, Senior Vice President for Personnel
L. W. Rixe, Senior Vice President and Controller
E. O. Wack, Senior Vice President for Franchising
B. F. Davidson, Vice President
H. J. Frommelt, Vice President for Public Relations
R. W. Hill, Vice President for Buying
R. W. Johnson, Vice President for Buying
L. Kanters, Vice President for Department Stores
W. H. Lollar, Vice President
P. R. Runeberg, Vice President
R. H. Allen, Assistant Vice President
C. H. Gauck, Assistant Secretary and Assistant General Counsel
R. E. Haugen, Assistant Controller
N. M. Steck, Assistant Treasurer

service costs. The actuarially computed value of vested benefits for all plans at January 31, 1970, does not exceed the total of the pension fund and balance sheet accruals.

(8) Capital Stock

The capital stock consists of the following:

	January 31, 1970	January 25, 1969
(a) Voting, cumulative, convertible preferred stock:		
(1) \$40 par value; \$1.75 per share dividend; authorized 600,000 shares; issued 596,952 and 596,992 shares ...	\$23,878,000	\$23,880,000
(2) \$5 par value; \$1.60 per share dividend; authorized 1,400,000; issued 1,334,245 and 1,343,670 shares (aggregate preference upon involuntary liquidation \$46,699,000)	6,671,000	6,718,000
	30,549,000	30,598,000
(b) Common stock of \$5 par value; authorized 10,000,000 shares; issued 3,839,951 and 3,602,430 shares	19,200,000	18,012,000
	<u>\$49,749,000</u>	<u>\$48,610,000</u>

At January 31, 1970, common shares were reserved as follows:

	Shares
Conversion of preferred stock	1,949,106
Employee stock options	652,600
Common stock purchase warrants	634,708
	<u>3,236,414</u>

Each share of \$1.75 preferred stock is convertible into 1.03 shares of common stock until October 31, 1973; 9,037/10,000ths of a share to October 31, 1978, and 8,024/10,000ths of a share to October 31, 1983, on which date conversion rights expire. The stock is redeemable at the option of the company at \$42.25 per share plus accrued and unpaid dividends during the year ending October 31, 1970, with successive annual reductions of 25¢ per share to \$40.00 per share on and after November 1, 1978. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1983.

Each share of \$1.60 preferred stock is convertible into one share of common stock until November 30, 1974, 9/10th of a share to November 30, 1979, and 8/10th of a share to November 30, 1984, on which date conversion rights expire. The stock is redeemable at the option of the company and in the event of involuntary liquidation at \$35.00 per share plus accrued and unpaid dividends. In the opinion of legal counsel the excess of the amount to be paid upon involuntary liquidation over par value, \$40,027,000 at January 31, 1970, does not constitute a restriction of retained earnings. Sinking fund requirements, equal to 5% of shares issued, commence in 1984.

Under the company's stock option plans for its executives and key employees, options are granted at market value and are exercisable from two to five years after date of grant. Shares

under option were as follows:

	Shares
Outstanding January 25, 1969	162,500
Granted	191,200
Expired	(41,600)
Outstanding January 31, 1970	<u>312,100</u>

The aggregate option price for shares outstanding at January 31, 1970, was \$8,383,000.

Warrants to purchase common stock issued principally in connection with the sale of subordinated income notes are exercisable as follows:

Price	Expiration Date	Shares
\$25.22	May, 1970	202,061
25.50	July, 1976	126,000
33.00/40.00	July, 1976/January, 1984	280,000
36.00	August, 1975	26,647
		<u>634,708</u>

(9) Retained Earnings

Retained earnings at January 31, 1970, include undistributed earnings of subsidiaries, \$85,130,000, of which approximately \$22,000,000 is restricted as to payment of dividends under the terms of various indentures and agreements relating to long-term debt.

(10) Earnings Per Share

Earnings per common including preferred share has been computed, in accordance with Accounting Principles Opinion Number 15 and is based on the average number of shares of common and common stock equivalents (and warrants) outstanding during the year. The average number of such shares was 3,773,516 in 1970 and 3,544,637 in 1969. Earnings per common share assumption is computed assuming conversion of convertible preferred stock with elimination of preferred dividends and exercise of stock options at the end of the year. For purposes of the above computation the treasury stock method was used for outstanding shares from exercise warrants.

(11) Contingent Liabilities and Commitments

During 1969 a United States District Court held that the Company omitted material information from a proxy statement and failed to file a fair plan of merger in connection with the 1963 merger with General Outdoor Advertising Co., Inc. Hearings are currently being conducted before a special master who will determine resultant damages, if any. After considering the Company's rights of appeal and reviewing this matter with legal counsel, the Company does not expect the outcome of this matter to materially affect its financial position.

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GAMBLE-SKOGMO, INC.

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T.M.

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